

**Report to:** Corporate Issues Scrutiny Committee

**Date:** 15<sup>th</sup> October 2007

**Report of:** Director of Corporate Resources

**Report No:**

**Contact Officer:** Susan Curran

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**Report Title:** **Future Pension Liabilities**

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**Non Confidential:**

This report does **not** contain information which warrants its consideration in the absence of the press or members of the public

**Purpose:**

Members have requested information on the Councils' future pension liabilities.  
This report informs Members of the actuarial valuation from Pension Fund Administrators

**Recommendations:**

Members are asked to note the information

**Decision:**

To note the information

**Background Doc(s):**

Statements of Accounts 2006/07 reported to the Councils Audit Committee 25<sup>th</sup> September 2007

## **1. Non Teaching Staff Pensions**

Employees of the Council are admitted to the Greater Manchester Pension Fund which is administered by Tameside Metropolitan Borough Council under regulations governing the Local Government Pension Scheme, "a defined benefit scheme".

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge the Council is required to make against the council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the Income and Expenditure Account after Net Operating Expenditure. The following transactions have been made during the year.

<b>Local Government Pensions Scheme</b>	<b>2006/07 £'000s</b>
<b>Net cost of Services:</b>	
Current Service Cost	26,800
Past Service Costs	1,200
Curtailment Costs	800
<b>Net Operating Expenditure:</b>	
Interest cost	36,000
Expected return on assets in the scheme	(37,700)
Amounts to be met from Government Grants and Local Taxation:	
Movement on pension reserve	(9,700)
<b>Actual amount charged against council tax for employer's contributions payable in the scheme</b>	<b>17,400</b>

## **2. Teaching Staff Pensions**

Teachers employed by the authority are members of the Teachers' Pension Scheme administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

	2006/07	
	Apr – Dec	Jan – Mar
Percentage Contributed (%)	13.5	14.1
Amount Contributed (£'000s)	8,602	3,051

The estimated future cost of discretionary pension payments at 31<sup>st</sup> March 2007 was £33,600,000 (£34,100,000 at 31<sup>st</sup> March 2006)

### **3. Non Teaching Staff Pension Liabilities**

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31<sup>st</sup> March are as follows:

<b>Local Government Pension Scheme Scheme</b>	<b>2006/07 £'000s</b>
Estimated Liabilities in the scheme	(736,400)
Estimated assets in the scheme	623,100
Net asset/(liability)	(113,300)

	<b>31<sup>st</sup> March 2007</b>	
	<b>Long term Return %</b>	<b>Fund Assets %</b>
Equity investments	7.8	67
Bonds	4.9	16
Other property	5.8	10
Other Cash	4.9	7
<b>Total</b>	<b>6.9</b>	<b>100</b>

Full details of the formal actuarial valuation are available from the Pension Fund Administrators at Tameside Metropolitan Borough.

**4. The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of the £113.3m has a substantial impact on the net worth of the Authority as recorded in the balance sheet. However statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the actuary.**

5. Liabilities have been assessed on an actuarial basis using the projected unit method. This is an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme liabilities have been assessed by Hymans Robertson, an independent firm of actuaries being based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2007.

### **6. Teaching Staff Pension Liabilities**

With regard to the Teachers Pension Scheme, there were contributions of £1,623,123.73 remaining payable at the year end.

The scheme is a defined benefit scheme administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by the local education authorities. However, it is not possible for the Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purpose of this statement of accounts, it is therefore accounted for on

the same basis as a defined contribution scheme.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme.

## **7. Changes to the local government pension scheme**

Changes to the Local Government Pension Scheme permit employees retiring on or after 6<sup>th</sup> April 2007 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of taking-up of the change in the pension scheme. Consequently the valuation of the Council's retirement benefit liabilities as at 31<sup>st</sup> March 2007 does not include any allowance for this change to the pension scheme.